HOUSING MARKET OUTLOOK

Toronto

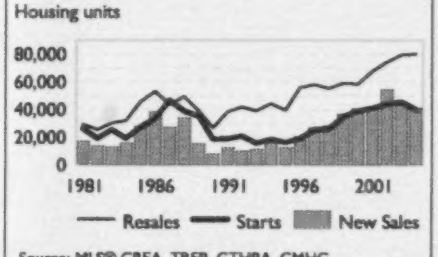
Canada Mortgage and Housing Corporation

Issue: *Spring 2004*

Housing Overview: Staying the course

Another round of mortgage rate declines in early 2004 set the stage for an all-time sales record in the resale market in March and a surge in new homes sales. With the strong sales came renewed reports of bidding wars. Given this strong start to the year, it is tempting to expect another year of growth in housing demand. Nevertheless, it appears that stability at high levels rather than growth will characterize Toronto's housing market this year.

Long-Term Housing Market Trends



Source: MLS® CREA, TREB, GTHBA, CMHC

The Toronto housing market is now in its ninth year of expansion. Much of the pent-up demand that had accumulated during the early and mid-1990s has been satisfied. While low interest rates are providing a solid foundation for demand, their stimulus is not expected to push sales in the resale market much beyond the record set last year. With listings in the resale market rising in response to increasing prices, buyers are expected to have more choice despite sales remaining at record levels. This is expected to shift demand to the resale market, with sales of new housing easing down. Starts of single-detached houses are expected to equal last year, but condominium starts will be down from last year's hectic pace.

As the housing market moves beyond expansion, questions are being raised about its next phase. Demographic trends suggest housing starts over the 2001-2006 period should average between 35,000-40,000 units, indicating that at 40,000, starts in 2004 will not be substantially above trend. This suggests that going forward declines in sales and starts will be moderate. Moreover, current price trends appear sustainable, and a repeat of the experience in the late 1980s unlikely.

Rate of price increases moderating

Source: TREB, trend adjustment by CMHC

IN THIS ISSUE

Housing Overview

1 Staying the course

Resale Market

2 Sales to duplicate last year's record

New Home Market

4 New home sales to ease in 2004

Rental Market

5 Further softening

Economic Environment

6 Job market shows mixed prospects

7 Mortgage rates to remain low by historical standards

Migration

7 Immigration up, but so is movement out of Toronto

8 **Forecast Summary**

CMHC Toronto Market Analysis

Ed Heese
Tel: (416) 218-332
eheese@cmhc-schl.gc.ca

Ted Tsiakopoulos
Tel: (416) 218-3407
ttsiakop@cmhc-schl.gc.ca

CMHC SCHL

HOME TO CANADIANS

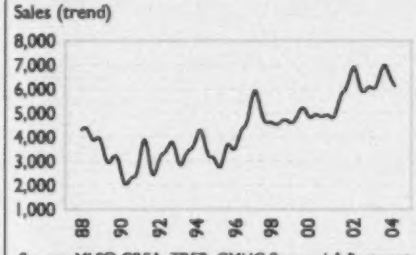
Canada

Resale Market

Sales to match the 2003 level

Despite a setback in employment, sales reached an unprecedented level of 79,371 in 2003. The main factor was a round of mortgage rate declines in midyear which pushed the seasonally adjusted annualized rate of sales to an all-time high of 97,400 in July. History repeated itself in early 2004, and increased sales at lower price points indicate that, while the first-time buyer pool may be shrinking, it still remains a force in the market. By offsetting most of the impact of rising prices on housing costs, declining mortgage rates have kept housing affordable. Occupancy costs (based only on carrying costs and taxes) are expected to continue to take up little more than a third of a household's income on average in 2004, a proportion well down from the high level to which it had been driven by high housing prices in the early 1990s. The stimulation from lower rates will be dampened by the expectations they will remain relatively stable during 2004. More choice due to rising listings will allow buyers to spend more time looking. On balance, sales will remain around the 80,000 level for another year.

Toronto sales stabilizing at high levels

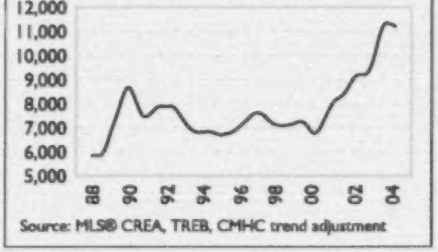


Source: MLS® CREA, TREB, CMHC Seasonal Adjustment

Supply on the rise

While sales for 2004 are expected to edge up from the record set last year, new listing are expected to rise 10 per cent to 146,000 following the jump of about 33 percent last year. As rising prices produce equity gains for existing home owners, moving up becomes increasingly attractive. Most of these repeat buyers will be listing their existing homes for sale. Growth in the move-up buying segment is supported by demographic as well as economic factors. The 45 to 64 age group, from which repeat buyers are traditionally drawn, is growing faster than other age groups and has been a beneficiary of employment growth in recent years. Move up buyers who choose a new home for their next purchase often have to wait before they are able to take possession. The high rate of starts over the past several years is translating into a high rate of home completions in 2004 and hence, contributing to a rise in listings.

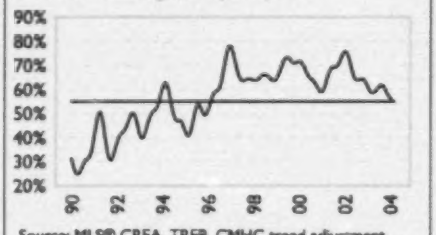
Toronto new listings moving up



Source: MLS® CREA, TREB, CMHC trend adjustment

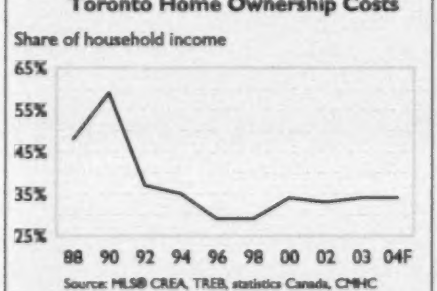
With sales stabilizing and the number of new listings rising, the state of the resale market will be moving towards a more balanced state in 2004. The sales to new listings ratio is a measure of the degree to which demand matches supply in the resale market, with 55 percent considered a rule of thumb to differentiate between a seller's market and a balanced market. The strong sales in March pulled this ratio back above 60 per cent, and this was accompanied with a return of the conditions

Trend still towards balance



Source: MLS® CREA, TREB, CMHC trend adjustment

Toronto Home Ownership Costs



Source: MLS® CREA, TREB, statistics Canada, CMHC

Toronto Housing Costs

Table 2 Lower mortgage rates keep housing costs flat

	1990	1996	2000	2002	2004F
Household income	$49,238	$55,952	$59,432	$62,197	$65,450
Avg 5yr mtg (%)	13.4	7.9	8.4	7.0	6.1
Avg Prices	$255,020	$198,150	$243,255	$275,371	$308,000
Taxes	$3,188	$2,477	$3,041	$3,025	$3,860
Occupancy costs*	$29,060	$16,013	$20,237	$20,384	$21,763
Costs as % income	59%	29%	34%	33%	34%

Source: Bank of Canada, Stats Canada, MLS® CREA, TREB, CMHC Forecast

** Occupancy cost= Carrying costs + taxes*

**based on 25% dp, 25 yr amort.*

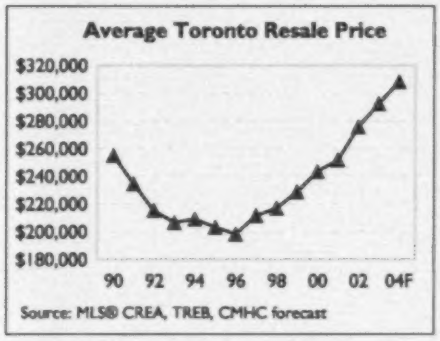
associated with a strong seller's market - bidding wars, sales above asking price and fewer days on market for listings. However, when adjusting the data for seasonality and random variations, the trend is clearly down and after several years of being well above, the sales to new listings ratio is expected, on average, to equal the 55 percent boundary in 2004. This implies prices will rise at a slower pace, but continue to outpace the general rate of inflation. For 2004, CMHC expects the average Toronto resale price to climb about 5.0 per cent to $308,000, just under the pace of 6.2 per cent set in 2003.

Table 3 Toronto MLS Sales & Prices: Major Sub Markets (1st quarter)

Sales	2004 Q1	2003 Q1	%chg
Ajax-Pickering	816	771	5.8%
Brampton	2,017	1,587	27.1%
Mississauga	2,836	2,591	9.5%
Oakville	507	392	29.3%
Toronto Central	3,165	2,790	13.4%
Toronto East	2,497	2,483	0.6%
Toronto West	1,829	1,841	-0.7%
York Region	3,490	2,980	17.1%

Avg Prices	2004 Q1	2003 Q1	%chg
Ajax-Pickering	$268,030	$246,986	8.5%
Brampton	$261,818	$241,348	8.5%
Mississauga	$287,005	$264,391	8.6%
Oakville	$336,428	$293,277	14.7%
Toronto Central	$398,440	$397,036	0.4%
Toronto East	$268,315	$251,819	6.6%
Toronto West	$299,836	$282,325	6.2%
York Region	$350,475	$327,361	7.1%

Source: TREB

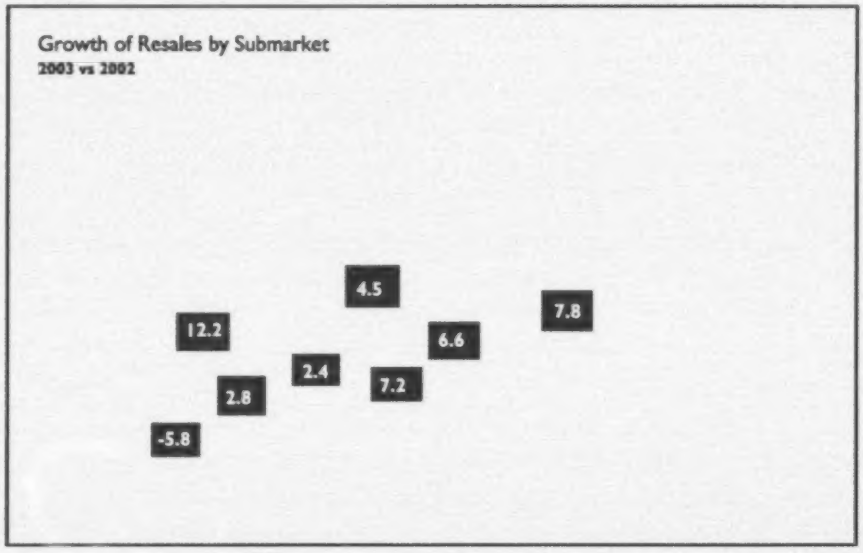


Location, location, location

This real estate dictum has never been more relevant than at present. There is considerable variation in market activity across the various communities in the GTA. Sales patterns show suburban markets are outperforming areas in the amalgamated City of Toronto, although the Toronto Central sales have shown considerable resilience. However, rising listings meant upward price pressures were less there than in some areas with weaker sales. Significant plant closures are likely to cool off the Oakville market during 2004, while growing employment in tourism and financial services may tighten up the market in Toronto Central. Toronto East and West are expected to continue to lag the other markets.

Condo market cooling down

The situation in condominium market stands in contrast to the relatively tight conditions in the rest of the Toronto resale market. A number of new condominiums are finding their way into the resale market upon completion. There are several factors for this phenomenon. Some owners may find the condo for which they made a commitment to purchase up to two years ago no longer meets their needs. Investors who had been intending to rent out their condo may decide to sell because of the softening conditions in the rental market. With more than 20,000 units under construction currently, completions are expected to rise in 2004 and contribute to listings in the resale market. The average resale price was up 3.5 per cent in 2003 to $211,577, but the rate of increase diminished towards the end of the year. In 2004 prices are expected to remain essentially unchanged, although there may be considerable variation across neighbourhoods.

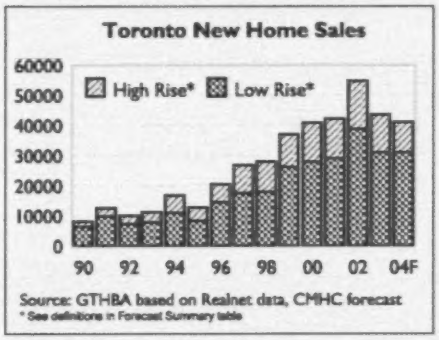


New Home Market

New home sales to ease in 2004

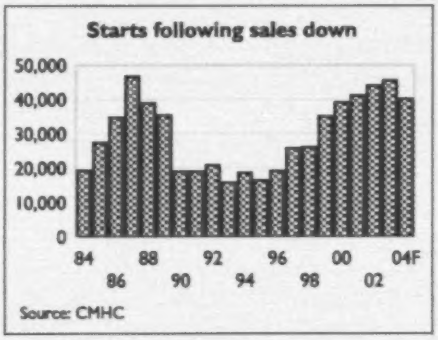
Conditions in the resale market are influencing trends in both the low rise and high rise new home markets. With the market for low rise product remaining relatively tight, sales of new low rise homes are expected to remain close to the 31,000 units sold in 2003. Although single-detached houses will continue to dominate, the markets for semis and rows are relatively tighter, indicating there may some shift in demand towards these types of units. Prices in the new market are rising at a rate that matches or exceeds that in the resale market, which will have some dampening effect on the new market. While strong demand is pulling up prices, rising costs, due to higher prices for some building materials and declining land inventories are also a factor.

Condominium sales showed renewed strength in early 2004. Lower mortgage rates were a factor, but pricing also played a role. Prices have been flat at $300 per square foot since mid-2003[1], but effectively prices are declining as developers include incentives such as free features upgrades or furniture packages. Buyers are also responding to other innovative sales strategies such as rent-to-own plans or designs targeted at specific niche markets. At the same time as intensifying competition is limiting potential net sales revenues, there is some evidence that the costs of some building materials (e.g. steel) are increasing. This is expected to limit the number of new project launches during 2004, leading to a drop of about 15 percent in sales to 10,500.



Low rise starts holding steady

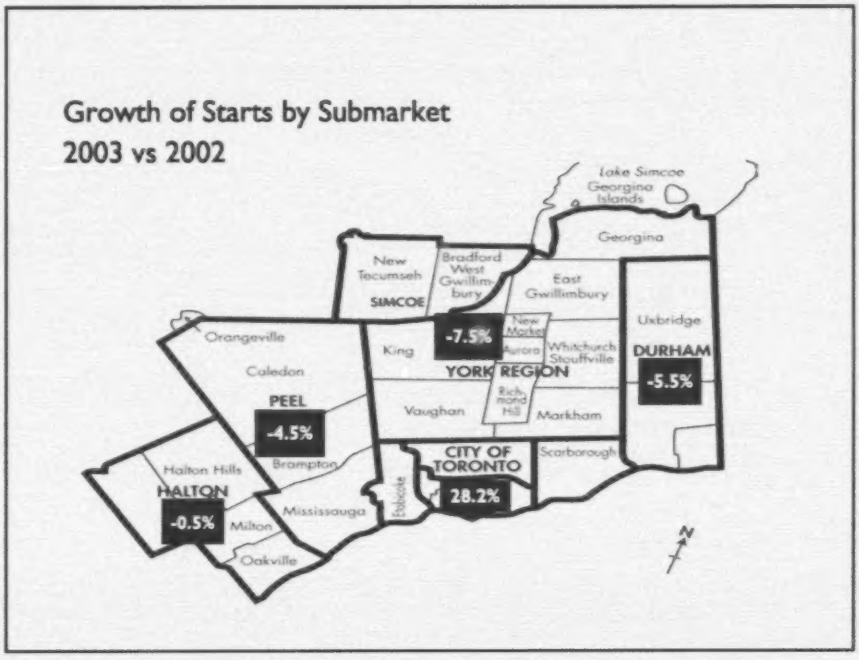
With sales holding steady and relatively low levels of standing inventory, starts of most low rise categories will match their 2003 levels. Given that most condominium apartment projects face an extended period before reaching the sales target that justifies beginning construction, condominium starts tend reflect sales performance a year earlier. With sales off about 20 per cent in 2003, starts in turn will be down to about 10,000 in 2004. Moreover, with the number of units under construction near record levels, new projects will likely have to wait until others are completed before getting underway. After several years of steady growth, starts of new private rental projects are expected to drop to about 1000 units, reflecting the soft conditions in the rental market.



Risks to the forecast

The market has responded strongly to mortgage rate declines. The main risk to the forecasts is that, even with no further declines, the current low level of mortgage rates will be sufficient to stimulate demand to a greater degree than expected, leading to higher sales and stronger price increases in both the resale and new markets.

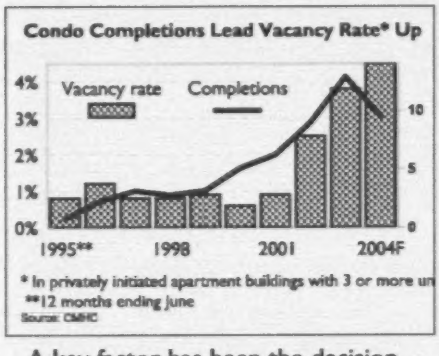
[1] Source: Urbanation



Rental Market

Further softening

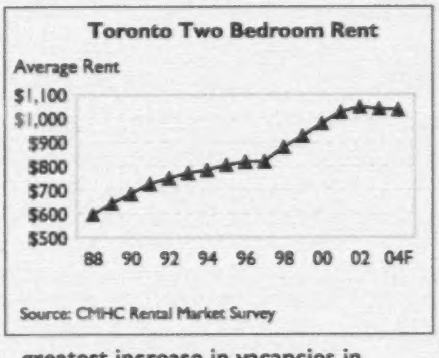
CMHC conducts its rental market survey during the first two weeks of October each year. The 2003 survey showed that the Toronto rental market continued to soften with the apartment vacancy rate moving up to 3.8 percent from an 2.5 percent, which had already been a record high in the Toronto market. A number of factors are contributing to the softer conditions.



A key factor has been the decision by many renters to purchase their home. This trend began with the strong pickup in employment growth that began in the mid-1990s and was reinforced by the steady decline in mortgage rates beginning in 2000. As first-time buyers, price strongly influenced the choice of home purchase and consequently many turned to the less expensive condominium market. Not all condominiums are sold to renters, nor do all renters turn to the condo market when they decide to buy, but the data indicate that there is a strong relationship between condominium completions and the rise in the vacancy rate.

As renters moved out, immigrants moved in. In the 1990s, Toronto received, on average, about 80,000 immigrants annually. In 2000 and 2001, the rate surged well over 100,000, offsetting the impact on rising condo completions on the rental market. The number of immigrants dropped sharply following September 11, 2001 while the movement by renters into newly completed condominiums continued apace. Also contributing to the softening was some increase in rental starts and weak employment growth among youth aged 15 to 24 years, a group in which new rental households are traditionally formed.

On balance, the vacancy rate in 2004 is expected to be 4.5 percent - up, but at a slower rate than in the past two years. Rising immigration will contribute to demand, but youth employment remains weak. This will contribute to continued weakness in the lower rent ranges which saw the greatest increase in vacancies in 2003. Condo completions are down temporarily, but with a record number of condos under construction, the number of completions is expected to be up significantly by the end of the year. Moreover, the number of projects that have yet to begin construction remains relatively high, so the supply of apartments is likely to continue to outstrip demand in 2005.



With the jump in the Toronto vacancy rate, rents are flat or declining. In 2003, the benchmark two bedroom rent decreased marginally to $1040 and a further decline to $1035 is forecast for 2004. Many landlords may find it difficult to pass on cost increases, such as heating, which are included in the base rent.

RENT CONTROL REFORM

The provincial government has announced it will review rent control in Ontario. As a first step, it plans to introduce legislation to amend the 1997 Tenant Protection Act to suspend the 2% base rent increase for 2005. Other changes may be following public consultations to be held before June 15, 2004.

2003 TORONTO RENTAL MARKET REPORT

Annual rental market survey reports are created with the valued participation and contribution of local property owners and managers. CMHC has developed extensive rental market information that is unmatched in the market place. The Toronto Rental Market Report presents in-depth data and analysis drawn from this source to deepen your understanding of the Toronto rental market.

Get the complete picture of average rents, vacancy rates and universe size by bedroom type and zone across the Toronto Census Metropolitan Area.

To order your copy or obtain more information please call 416-218-3317, or outside Toronto please call 1-800-493-0059.

Economic Environment

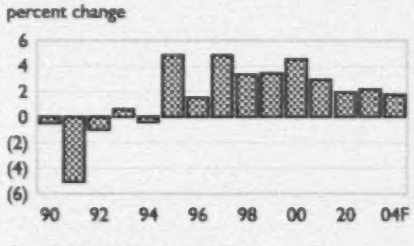
Canadian and US economies in recovery mode

Severe Acute Respiratory Syndrome (SARS), the power outage and the unprecedented speed of the appreciation of the Canadian dollar against its US counterpart brought Toronto's economy to a standstill in 2003. Activity began to recover in the fall and will strengthen through 2004, helped by ongoing recovery in the US. With the long-awaited pickup in employment finally materializing in the US, demand for Canadian exports is expected to show consistent growth into 2005.

Toronto employment growth to pick up in 2004

The series of adverse events that occurred during 2003 hit employment hard. Over the course of the year, the Toronto economy was able to eke out only about 32,000 jobs in 2003. While growth has begun to move up, it is expected to average only about 1.7 percent in 2004. Further acceleration is expected in 2005 as recovery strengthens.

Employment Growth Below Average



Source: Statistics Canada

Employment situation favourable for move-up buyers

Youth between the ages of 15 to 24 were the most affected by the slowdown in Toronto's job market in 2003. Employment for this group had regained most of the territory it had lost following the meltdown in the high tech sector in 2001, but the events of 2003 produce a setback from which it has yet to recover. Looking to boost productivity following the setback in 2003, employers will be reluctant to take on labour that requires training. However, with employment recovery well established among other groups, youth employment is expected to see some improvement before the end of 2004.

The 25 to 44 age group also experienced a significant setback in 2003, but a relatively strong recovery begun last fall is continuing. Accelerating employment growth for this group is expected to help sustain first-time buyer demand moving into 2005.

The 45 to 64 age group weathered the events of 2003 with the least impact. The relatively stronger employment situation for this group is contributing to move-up demand in the housing market.

Job market shows mixed prospects

Several sectors are expected to generate a significant number of jobs during 2004. The finance, real estate and insurance sector will be among the leaders, helped by ongoing strength in the housing market. The recovery in tourism will lead to job creation in a number of areas such as transportation, services and retail and wholesale trade. However, the high dollar is dampening prospects in the film industry.

Employment in the construction industry is not expected to continue to grow at the double-digit pace set in 2003. However, with residential construction continuing a at high pace and several projects, such as the opera house and the Royal Ontario Museum underway, the sector will remain a positive factor in the labour market.

With both the provincial and municipal governments facing budgetary shortfalls, employment in public administration is expected to slow from the relatively strong growth seen in 2003. However, employment in areas like education and health are expected to continue to grow.

The manufacturing sector will be the weak link in the employment picture in 2004. Manufacturing was the sector hit hardest by the rise in the US dollar, and saw employment drop about 5 percent. Although the recovering US economy will draw in more imports from Canadian manufacturers, the strong Canadian dollar will keep profit margins fine. Employers will be focused on improving productivity and will postpone hiring as much as possible. Many are using this period of currency strength to upgrade their machinery, another factor dampening employment growth in this sector in the longer term. Planned closures (Ford's Oakville truck plant, Petrocanada's Oakville refinery, Dorel's Brampton furniture plant and a Roots clothing manufacturing plant) representing about 1500 jobs will be another factor dampening employment growth in this sector in 2004.

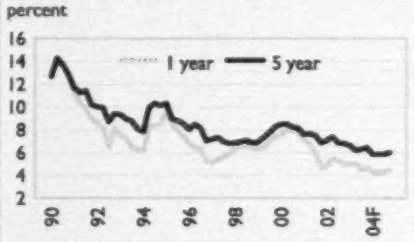
Mortgage rates to remain low by historical standards

Short-term mortgage rates move in tandem with the prime rate while mid and long term mortgage rates vary in response to the cost of raising funds in the bond markets with the same maturities. Therefore.

low interest rates in those markets call for posted mortgage rates to stay low over the next few quarters.

Spreads between mortgage rates and comparable bond yields have remained at 150-250 bps in the last few years, providing lenders with some room to allow for discounts ranging 50-150 bps from the posted rates. These spreads and discounts are likely to persist in the near term.

Mortgage Rates To Remain Low



Source: Bank of Canada, CMHC forecast

One, three and five-year posted closed mortgage rates are expected to remain relatively flat for the remainder of the year, perhaps rising by 25 basis points. Next year these rates will begin to increase by 50-75 basis points and are expected to be in the 4.50-5.25, 5.75-6.75, and 6.25-7.25 percent ranges respectively this year.

Demographic trends support the move-up market

Although international immigrants represent significant part of the annual increase and most are in the 25 to 44 age group, Toronto's population is aging. The largest group of households is those headed by people born in the early 1960s, most of whom have bought their first home. As a result, the pool of households from which repeat are buyers are traditionally drawn will continue to increase during the 2001-2006 period. However, after being strong in the five years up to 2001, growth in the number of households with heads in the 25-44 age cohort will drop off sharply in the 2001-2006 period. In the longer term, the annual increase in the total number of households in Toronto is also expected to fall.

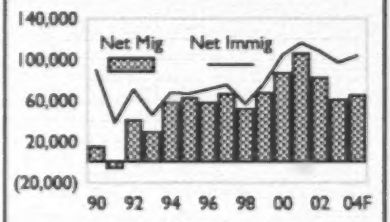
Migration

Immigration up, but so is movement out of Toronto

Measures announced by Immigration Canada in the fall of 2003 which loosened requirements for skilled workers planning to make Canada their home have contributed to a recovery in immigration flows. The number of international immigrants into Toronto is expected to be up about 10 percent to about 105,000 in 2004 after having dropped over 22 percent in the previous two years. Most immigrants tend to rent during their first years in Canada, but there are indications that the wait before they purchase a home has shortened. The surge in immigration in 2000 and 2001 may already be having some impact in both the new and resale housing markets.

Gains in population due to are offset to a significant degree by movement from Toronto to the rest of Ontario and to other provinces. The number of people moving to communities just outside Toronto's boundaries, like Barrie, Burlington, and Whitby has been growing steadily, and is a major factor in Toronto's net population loss to the rest of the province. Movements to other provinces usually reflect of differences in the labour market across the country and tend to be more cyclical. Net inflows to Toronto peaked in 2000 and became negative last year. This is expected to continue in 2004, but as the recovery in Toronto's employment gains strength, the flow may again become positive.

Toronto net migration



Source: Statistics Canada, CMHC annual estimates

DID YOU KNOW?

For those who have difficulty meeting their housing needs on their own, CMHC plays a key role in helping them gain access to safe, affordable housing.

On behalf of the Government of Canada, we provide annual housing support to hundreds of thousands of low-income households in communities across the country.

We also work in partnership with public, private and non-profit organizations as well as other levels of government to develop innovative financing and to increase the supply of affordable housing in Canada.

We are and we will continue to be

"Home to Canadians."

Visit us at
www.cmhc-schl.gc.ca

CMHC SCHL

HOME TO CANADIANS
Canada

FORECAST SUMMARY

Toronto Spring 2004

RESALE MARKET	1999	2000	2001	2002	2003f	2004f	Chg.%
MLS(1) Sales	58,957	58,349	67,612	74,759	79,371	80,000	0.7
MLS Price	$228,307	$243,249	$251,508	$275,371	$293,327	$308,000	5.5
MLS New Listings	84,285	89,463	101,800	99,819	132,819	146,000	9.9
Sales to New List Ratio	70%	65%	66%	75%	60%	55%	
NEW HOME MARKET							
Freehold Sales /(Low Rise)*	26,157	27,964	29,201	38,534	31,087*	30,500	-1.9
Condo Sales /(High Rise)**	10,840	12,878	13,061	15,791	12,449**	10,500	-15.7
Total Sales	36,997	40,842	41,362	54,325	43,536	41,000	-5.8
HOUSING STARTS							
Total	34,904	38,982	41,017	43,805	45,475	40,000	-12.0
Single Family Detached	15,535	17,119	16,844	22,115	19,626	20,000	1.9
Semi/Row	10,646	11,607	10,479	11,097	10,535	10,000	-5.1
Apartment	8,270	9,981	12,738	9,081	15,314	10,000	-34.7
Private Rental Starts	453	275	956	1,512	1,981	1,000	-49.5
RENTAL MARKET							
Vacancy Rate	0.9%	0.6%	0.9%	2.5%	3.8%	4.5%	-
Average Rent (2-bed)	$916	$979	$1,027	$1,047	$1,040	$1,035	-
							-
ECONOMIC OVERVIEW							-
Mortgage Rate-3 year	7.38%	8.17%	6.88%	6.28%	5.82%	5.50%	-
Mortgage Rate-5 year	7.56%	8.35%	7.40%	7.02%	6.39	6.20%	-
Employment Growth (%)	3.4%	4.5%	3.0%	1.9%	2.1%	1.7%	-
Unemployment Rate	6.1%	5.5%	6.3%	7.4%	7.7%	7.8%	-
Net Migration (2)	58,000	65,000	95,000	85,000	60,000	65,000	-

Source: Toronto Real Estate Board, Statistics Canada , GTHBA based on Realnet Data, CMHC

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association
(2) Source-Net Migration=CMHC Annual Estimates, Statistics Canada
F=CMHC Forecast

(Low Rise)*= Realnet Data switches to low rise definition in 2003=singles, semis, townhomes(both freehold and condo)
(High Rise)**= Realnet Data switches to high rise definition in 2003=condo apartments exclusively

The Toronto CMA Housing Market Outlook is CMHC's local forecast for new home and resale markets. Issues are released in the Spring and Fall of each year. To become a subscriber for only $40.00 annually (single- $25.00) (+GST) or for more information please call 1-800-493-0059.

© 2003 Canada Mortgage and Housing Corporation. All rights reserved. No portion of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, electronic, photocopying, recording or otherwise without the prior written permission of Canada Mortgage and Housing Corporation. Without limiting the generality of the foregoing, no portion of this publication may be translated from English into any other language without the prior written permission of Canada Mortgage and Housing Corporation. The information, analyses and opinions contained in this publication are based on various sources believed reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibilities.